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ALBERTA ELECTRIC ENERGY MARKETING AGENCY

86-05820/

Alberta
TRANSPORTATION AND UTILITIES

Office of the Minister

208 Legislature Building, Edmonton, Alberta, Canada T5K 2B6 403/427-2080

Honourable Dr. David J. Carter
Legislative Assembly of Alberta
325 Legislature Building
Edmonton, Alberta
T5K 2B6

Sir:

It is my pleasure to submit the Annual Report of the Electric Energy Marketing Agency for the year ended March 31, 1986.

Respectfully submitted,

J. Allen Adair, Minister
Transportation and Utilities

ALBERTA
ELECTRIC
ENERGY
MARKETING
AGENCY

OFFICE OF THE CHAIRMAN

Suite 711, 400 - 4th Ave., Lethbridge, Alberta T1J 4E1 Phone (403) 381-5384

The Honourable J. Allen Adair
Minister of Transportation and Utilities

Sir:

It is with pleasure that I submit a report covering the activities of the Electric Energy Marketing Agency for the fiscal year ended March 31, 1986.

Respectfully submitted,

James R. Dunstan
Chairman

TABLE OF CONTENTS

	Page
Auditor's Report and Financial Statements	9
Forward to Agency Report	17
Agency Operations	
Pooling	19
Shielding	20
Benefits from Agency Operations	21
Summary of Transfer Pool and Shielding Payments	22

LIST OF TABLES

Tables	Page
1. Alberta Electric Energy Marketing Agency Purchase of Electric Energy from Utilities for the Year Ended March 31, 1986 (After Income Tax Rebate)	18
2. Alberta Electric Energy Marketing Agency Energy Purchased from Utilities for the Year Ended March 31, 1986 (in GW.h)	18
3. Alberta Electric Energy Marketing Agency Transfer Payments to/from Utility Companies Including Reimbursement and Offsetting Amounts to the Cities for the Year Ended March 31, 1986	19
4. Alberta Electric Energy Marketing Agency Shielding to Utility Companies and Offsetting Amount to Cities for the Year Ended March 31, 1986	20
5. Pooling Benefits For the Period September 1, 1982 to March 31, 1986 By Calendar Year	21
6. Shielding Benefits For the Period September 1, 1982 to March 31, 1986 By Calendar Year	21
7. Summary of Transfer Pool and Shielding Payments to Utility Companies Including Reimbursement and Offsetting Amounts to the Cities from the Beginning of Agency Operations to March 31, 1986 (Net)	22

ALBERTA ELECTRIC ENERGY MARKETING AGENCY
FINANCIAL STATEMENTS
MARCH 31, 1986

Auditor's Report

Balance Sheet

Statement of Revenue and Expenditure

Statement of Capital Surplus

Notes to the Financial Statements

Schedule of Operating Expenses

ALBERTA LEGISLATURE

OFFICE OF THE AUDITOR GENERAL

AUDITOR'S REPORT

To the Minister of Utilities

I have examined the balance sheet of the Alberta Electric Energy Marketing Agency as at March 31, 1986 and the statements of revenue and expenditure and capital surplus for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Agency as at March 31, 1986 and the results of its operations for the year then ended in accordance with the disclosed basis of accounting, considered appropriate in the circumstances, as described in Note 2 to the financial statements applied on a basis consistent with that of the preceding year.

Donald D. Salmon

Donald D. Salmon, C.A.
Auditor General

Edmonton, Alberta
April 21, 1986

ALBERTA ELECTRIC ENERGY MARKETING AGENCY
BALANCE SHEET
AS AT MARCH 31, 1986

	1986	1985
ASSETS		
Current:		
Cash	$ 36,368	$ 296,867
Fixed:		
Equipment, at cost	43,173	44,363
	$ 79,541	$ 341,230
LIABILITIES AND SURPLUS		
Current:		
Accounts payable	$ 2,038	$ 35,664
Due to the Province of Alberta	34,330	261,203
	36,368	296,867
Capital surplus	43,173	44,363
	$ 79,541	$ 341,230

The accompanying notes are part of these financial statements.

ALBERTA ELECTRIC ENERGY MARKETING AGENCY
STATEMENT OF REVENUE AND EXPENDITURE
FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
REVENUE		
Sales of electric energy	$ 937,774,669	$841,311,198
Interest, net (Note 3)	15,877	(199,644)
	937,790,546	841,111,554
EXPENDITURE		
Purchases of electric energy	937,774,669	841,311,198
Shielding grants	49,521,093	36,691,030
Operating expenses, Schedule 1	355,506	412,584
	987,651,268	878,414,812
Excess of expenditure over revenue	49,860,722	37,303,258
Contribution by the Province of Alberta	49,860,722	37,303,258
	$ —	$ —

ALBERTA ELECTRIC ENERGY MARKETING AGENCY
STATEMENT OF CAPITAL SURPLUS
FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
Balance at beginning of year	$ 44,363	$ 21,884
Add: Purchases of equipment	9,913	22,479
	54,276	44,363
Less: Equipment transferred to Department of Utilities	11,103	—
Balance at end of year	$ 43,173	$ 44,363

ALBERTA ELECTRIC ENERGY MARKETING AGENCY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1986

Note 1 **Authority**

The Alberta Electric Energy Marketing Agency operates under the authority of the Electric Energy Marketing Act, Chapter E-4.1, Statutes of Alberta 1981. Shielding grants are paid pursuant to the Department of Utilities and Telecommunications Act, Chapter D-31, Revised Statutes of Alberta 1980.

Note 2 **Significant Accounting Policies**

(a) General:

These financial statements have been prepared in accordance with generally accepted accounting principles except that the cost of equipment is charged to operations in the year of acquisition. Equipment is shown in the balance sheet at cost, with an offsetting credit to capital surplus.

(b) Administration Expenses:

The costs of office accommodation and certain other administration expenses are provided from the General Revenue Fund of the Province of Alberta, and accordingly are not reflected in these financial statements.

(c) Approval by the Public Utilities Board:

The price at which electric energy is sold to the Alberta Electric Energy Marketing Agency is subject to Public Utilities Board approval. Any subsequent price adjustments by the Board are reflected in the year of the Board's adjusting order.

(d) Changes in Financial Position:

A statement of changes in financial position is not provided as disclosure in these financial statements is considered to be adequate.

Note 3 **Interest, Net**

Interest, net, consists of interest charged to and received from utility companies on adjustments of the purchase and sale price of electric energy.

Note 4 **Contingency**

Certain Public Utilities Board rates established in the prior year were appealed and some payments made to the Agency were conditional pending the conclusion of this matter.

Note 5 **Comparative Figures**

The 1985 figures have been reclassified where necessary to conform to 1986 presentation.

Note 6 **Approval of Financial Statements**

These financial statements were approved by management.

Schedule 1

ALBERTA ELECTRIC ENERGY MARKETING AGENCY
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED MARCH 31, 1986

	1986	1985
Salaries and wages	$ 258,506	$ 265,864
Legal and consulting services	29,641	43,732
Employee benefits	24,933	26,482
Travel and hospitality	10,401	26,353
Equipment	9,913	22,479
Equipment rental	9,117	9,317
Freight, postage and telephone	3,856	1,667
Printing, stationery and supplies	3,580	8,011
Repair and maintenance	2,890	1,411
Books and periodicals	2,669	7,268
	$ 355,506	$ 412,584

FORWARD TO AGENCY REPORT

This is the fourth annual report submitted by the Alberta Electric Energy Marketing Agency (AEEMA) pursuant to statutory requirements.

The Electric Energy Marketing Act proclaimed April 15, 1982, the Electric Energy Marketing Act General Regulation, and subsequent amendments to both the Act and General Regulation provide the legislative mandate for the Agency to continue its work towards reducing electric energy cost differentials province-wide.

The Agency, subsequent to Public Utilities Board (PUB) orders, purchases all the electric energy produced by TransAlta Utilities Corporation (TAU), Alberta Power Limited (APL), and the City of Edmonton (Edmonton Power) (EP) at the end of generation and transmission, pools those energy costs and sells the energy at a pooled price back to the three utilities. The purchase, pooling and re-sale of electric energy by the Agency is done by three consumer groups as defined in the General Regulation: residential/farm, large industrial, and general service. Pooling results in the transfer of payments between the utility companies as discussed under a separate heading. The reimbursement of Calgary, Lethbridge, and Red Deer for transmission lines within their municipal boundaries is also part of the pooling process.

The Electric Energy Marketing Agency does not set final rates. While the price out of the Agency reflects a blending of that portion of electrical charges related only to generation and transmission as established by Public Utilities Board orders for prices into the Agency, it is worth highlighting that the Agency is not involved with setting the final rates. The total bill will continue to vary dependent upon downstream costs associated primarily with distribution. This is consistent with the original intent of the legislation whereby some equalization of the costs associated with generation and transmission was to be addressed while preserving a proven and well regarded regulatory system as well as a viable, effective electric utility industry with varied ownership.

However, the General Regulation does require every identified owner of a public utility, identified municipality and rural electrification association to inform all the customers in the residential/farm consumer group who are served by it of the provincially pooled cost of generation and transmission. This is to be done by including the cost, as a specific notation, in the bill for electric energy rendered to that customer. The 1985 provincially pooled cost of generation and transmission for the residential/farm group was 4.37¢/kWh and for 1986 the provincially pooled cost for this consumer group is 4.69¢/kWh effective January 1, 1986.

While the Public Utilities Board continues to set final rates at which investor-owned utilities can sell electric energy to their direct customers, the identified municipalities set the charges for their customers. In the case of the customers of Edmonton Power which is a municipally owned utility, Edmonton City Council sets the rates customers pay.

The Agency administers a shielding program which is incrementally being reduced. This program shields, through the utility companies, the customers of the low-cost producers of electric energy thus allowing for a phased-in adjustment to the provincially pooled cost of electric energy at the end of generation and transmission.

Provincial shielding grants between April 1985 and March 1986 totalled $49,595,118 (gross). Shielding is discussed further under a separate heading.

Well in advance of the commencement of Agency operations, the City of Medicine Hat was in the unique position of owning both a power plant and the gas to fire a plant. Hence they are non-participatory in the Agency.

For purposes of the Utility Companies Income Tax Rebates Act only, the Agency has been designated as a customer of the three generating utilities. Under the Utility Companies Income Tax Rebates Regulation, the required provincial rebate for the Agency is to be the total of the provincial payment passed on by the utility companies to the Agency. Therefore, in Alberta, 95 percent of the federal income tax paid by the utility companies and 100 percent of the provincial income tax is flowed back to the utilities for the benefit of their customers. This rebate is administered by the Provincial Treasurer.

As an administrative body, the Agency performs its function upon the receipt of orders out of the Public Utilities Board pursuant to applications to the PUB by the three generating utilities for prices into the Agency.

For the year ended March 31, 1986 the Agency's total purchases were $936,809,749 (gross) as displayed in Table 1. The amount of energy purchased is shown in Table 2.

The Agency continues to be an observing member of the Electric Utility Planning Council (EUPC).

TABLE 1

ALBERTA ELECTRIC ENERGY MARKETING AGENCY
PURCHASE OF ELECTRIC ENERGY FROM UTILITIES
FOR THE YEAR ENDED MARCH 31, 1986
(AFTER INCOME TAX REBATE)

	Alberta Power Ltd.	Edmonton Power	TransAlta Utilities	Cities	Total
April 1985	$ 14,458,417	$ 15,084,500	$ 43,320,667	$ 2,192,600	$ 75,056,184
May 1985	14,458,417	15,084,500	43,320,667	2,192,600	75,056,184
June 1985	14,458,417	15,084,500	43,320,667	2,192,600	75,056,184
July 1985	14,458,417	15,084,500	43,320,667	2,192,600	75,056,184
August 1985	14,458,417	15,084,500	43,320,667	2,192,600	75,056,184
September 1985	14,458,417	15,084,500	43,320,667	2,192,600	75,056,184
October 1985	14,458,417	15,084,500	43,320,667	2,192,600	75,056,184
November 1985	14,458,417	15,084,500	43,320,667	2,192,600	75,056,184
December 1985	14,458,413	15,084,500	43,320,663	2,192,600	75,056,176
January 1986	19,383,333	14,784,443	50,551,083	2,382,508	87,101,367
February 1986	19,383,333	14,784,443	50,551,083	2,382,508	87,101,367
March 1986	19,383,333	14,784,443	50,551,083	2,382,508	87,101,367
TOTAL	$ 188,275,748	$ 180,113,829	$ 541,539,248	$ 26,880,924	$936,809,749*

* THIS TOTAL IS A GROSS TOTAL. THE NET TOTAL IS $937,774,669 WHICH INCLUDES ADJUSTMENTS MADE FOR JANUARY TO DECEMBER 1984 FURTHER TO PUB ORDER E85142 DATED DECEMBER 20, 1985.

TABLE 2

ALBERTA ELECTRIC ENERGY MARKETING AGENCY
ENERGY PURCHASED FROM UTILITIES
FOR THE YEAR ENDED MARCH 31, 1986
(In GW.h)

	Alberta Power Ltd.	Edmonton Power	TransAlta Utilities	Cities	Total
April 1985	336.8775	427.0797	1,504.7693	0.0000	2,268.7265
May 1985	336.8775	427.0797	1,504.7693	0.0000	2,268.7265
June 1985	336.8775	427.0797	1,504.7693	0.0000	2,268.7265
July 1985	336.8775	427.0797	1,504.7693	0.0000	2,268.7265
August 1985	336.8775	427.0797	1,504.7693	0.0000	2,268.7265
September 1985	336.8775	427.0797	1,504.7693	0.0000	2,268.7265
October 1985	336.8775	427.0797	1,504.7693	0.0000	2,268.7265
November 1985	336.8775	427.0797	1,504.7693	0.0000	2,268.7265
December 1985	336.8775	427.0797	1,504.7693	0.0000	2,268.7265
January 1986	394.5542	446.9906	1,630.8333	0.0000	2,472.3781
February 1986	394.5542	446.9906	1,630.8333	0.0000	2,472.3781
March 1986	394.5542	446.9906	1,630.8333	0.0000	2,472.3781
TOTAL	4,215.5601	5,184.6891	18,435.4236	0.0000	27,835.6728

AGENCY OPERATIONS

The administrative operations of the Agency focus on two separate concepts: pooling and shielding.

Pooling

This is the key administrative task of the Electric Energy Marketing Agency. In essence, it is the mechanism by which some equalization of costs associated with generation and transmission can be achieved provincewide. Those costs represent approximately 80 percent of the average customer bill. The pooling mechanism also encourages the attainment of a high degree of economic dispatch within the system. A positive aspect since the beginning of the program in September 1982 saw rates in the parts of northern Alberta served by Alberta Power reduced.

Before Agency work commences, applications for a price into the Agency are made to the Public Utilities Board by TransAlta Utilities Corporation, Alberta Power Limited, and the City of Edmonton (Edmonton Power).

Subsequently the Public Utilities Board issues orders identifying the costs at which each utility will sell electric energy to the Agency. Working with these orders and utility invoices, the Agency then blends or pools the cost of electric energy to the interface points and sells the energy to the three utilities at the same interface points for the duration of the PUB order.

Pursuant to the General Regulation the sale, pooling and re-sale takes place by consumer group and the cities of Calgary, Lethbridge and Red Deer are reimbursed for municipally owned transmission lines as a part of the pooling process. The 1985 monthly reimbursement to the cities of Calgary, Lethbridge, and Red Deer was $2,024,000; $99,200 and $69,400 respectively. The 1986 monthly amounts are $2,183,000; $114,285 and $85,223 respectively.

Pooling results in the transfer of payments between the utility companies and to the cities as shown in Table 3.

TABLE 3
ALBERTA ELECTRIC ENERGY MARKETING AGENCY
TRANSFER PAYMENTS TO/FROM UTILITY COMPANIES
INCLUDING REIMBURSEMENT AND OFFSETTING AMOUNTS TO THE CITIES
FOR THE YEAR ENDED MARCH 31, 1986

	Alberta Power Ltd.	Edmonton Power	TransAlta Utilities	Cities	Total
April 1985	$ 3,272,427	$ 877,920	$ (2,537,179)	$ 2,192,600	$ 3,805,768
May 1985	3,272,427	877,920	(2,537,179)	2,192,600	3,805,768
June 1985	3,272,427	877,920	(2,537,179)	2,192,600	3,805,768
July 1985	3,272,427	877,920	(2,537,179)	2,192,600	3,805,768
August 1985	3,272,427	877,920	(2,537,179)	2,192,600	3,805,768
September 1985	3,272,427	877,920	(2,537,179)	2,192,600	3,805,768
October 1985	3,272,427	877,920	(2,537,179)	2,192,600	3,805,768
November 1985	3,272,427	877,920	(2,537,179)	2,192,600	3,805,768
December 1985	3,272,424	877,922	(2,537,178)	2,192,600	3,805,768
January 1986	5,528,162	(616,959)	(2,547,309)	2,382,508	4,746,402
February 1986	5,528,162	(616,959)	(2,547,309)	2,382,508	4,746,402
March 1986	5,528,162	(616,959)	(2,547,309)	2,382,508	4,746,402
TOTAL	$ 46,036,326	$ 6,050,405	$(30,476,537)	$ 27,984,924	$ 49,595,118*

* THIS TOTAL IS A GROSS TOTAL. THE NET TOTAL IS $49,521,093 WHICH INCLUDES ADJUSTMENTS MADE FOR JANUARY TO DECEMBER 1984 FURTHER TO PUB ORDER E85142 DATED DECEMBER 20, 1985.

Shielding

During the equalization phase, provincial shielding by utility company is being administered to help offset the increase of costs to those consumers in areas where generation and transmission costs are lower than average. This program is incrementally being reduced. Initially the shielding program provided 100 percent shielding for one year to the customers of TransAlta Utilities from rate increases due to pooling of TransAlta's costs with the higher-priced Alberta Power and Edmonton Power costs. During this fiscal year, shielding was at the 60 percent level. This is the level in place at the end of the fiscal year.

The value of shielding between April 1985 and March 1986 is $49,595,118 (gross) as shown in Table 4. This includes a one-time offsetting amount of $1,104,000 (Lethbridge $516,000 and Red Deer $588,000) in fulfillment of the intent of government that the consumer be protected from the immediate changes resulting from the legislative amendments effective January, 1985 and subject to the amount being taken before the PUB in the normal course of the utility company rate-setting process.

TABLE 4
ALBERTA ELECTRIC ENERGY MARKETING AGENCY
SHIELDING TO UTILITY COMPANIES AND OFFSETTING AMOUNT TO CITIES
FOR THE YEAR ENDED MARCH 31, 1986

	Alberta Power Ltd.	Edmonton Power	TransAlta Utilities	Cities	Total
April 1985	$ 0	$ 0	$ 3,805,768	$ 0	$ 3,805,768
May 1985	0	0	3,805,768	0	3,805,768
June 1985	0	0	3,805,768	0	3,805,768
July 1985	0	0	3,805,768	0	3,805,768
August 1985	0	0	3,805,768	0	3,805,768
September 1985	0	0	3,805,768	0	3,805,768
October 1985	0	0	3,805,768	0	3,805,768
November 1985	0	0	3,805,768	0	3,805,768
December 1985	0	0	3,805,768	0	3,805,768
January 1986	0	925,438	3,820,964	0	4,746,402
February 1986	0	925,438	3,820,964	0	4,746,402
March 1986	0	925,438	3,820,964	1,104,000	5,850,402
TOTAL	$ 0	$ 2,776,314	$ 45,714,804	$ 1,104,000*	$ 49,595,118**

* LETHBRIDGE $516,000 AND RED DEER $588,000 AS DISCUSSED IN THE SECTION ON SHIELDING.

** THIS TOTAL IS A GROSS TOTAL. THE NET TOTAL IS $49,521,093 WHICH INCLUDES ADJUSTMENTS MADE FOR JANUARY TO DECEMBER 1984 FURTHER TO PUB ORDER E85142 DATED DECEMBER 20, 1985.

BENEFITS FROM AGENCY OPERATIONS

This section presents an overview of benefits through Agency operations by calendar year from the commencement of Agency operations in September 1982 to the end of March 1986. As the calendar year is used by the Public Utilities Board for purposes of orders affecting the Agency, it is also used here.

Two types of benefits can be identified; pooling benefits, and shielding benefits. As mentioned previously, pooling benefits reflect transfers that result from the pooling of costs, the other reflects provincial shielding.

The values of pooling benefits and shielding are shown in Tables 5 and 6.

It is noted that during the complete time period that the Agency has been in operation, to the benefit of their customers, Alberta Power Limited benefited $179,192,744 from the transfer pool. During the same time period Edmonton Power benefited $37,543,948 from the transfer pool except for 1984 and 1986 during which time Edmonton Power received the benefit of $11,549,392 in provincial shielding.

As TransAlta Utilities continues to be the low cost producer, customers in their franchise area are being shielded allowing for a phased-in adjustment to the pooled cost of electric energy at the end of generation and transmission. As mentioned earlier, shielding is being incrementally reduced and since the inception of the program totals $182,540,716 for TransAlta Utilities customers.

TABLE 5
POOLING BENEFITS
FOR THE PERIOD SEPTEMBER 1, 1982 TO MARCH 31, 1986
BY CALENDAR YEAR

	1982	1983	1984	1985	1986	Total
Alberta Power Ltd.	$ 20,046,742	$ 56,562,811	$ 46,729,584	$ 39,269,121	$ 16,584,486	$ 179,192,744
Edmonton Power	14,564,367	12,399,191	45,348	10,535,042	0	37,543,948
TransAlta Utilities	0	0	0	0	0	0
TOTAL	$ 34,611,109	$ 68,962,002	$ 46,774,932	$ 49,804,163	$ 16,584,486	$ 216,736,692

TABLE 6
SHIELDING BENEFITS
FOR THE PERIOD SEPTEMBER 1, 1982 TO MARCH 31, 1986
BY CALENDAR YEAR

	1982	1983	1984	1985	1986	Total
Alberta Power Ltd.	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Edmonton Power	0	0	8,773,078	0	2,776,314	11,549,392
TransAlta Utilities	34,611,109	64,744,512	26,052,987	45,669,216	11,462,892	182,540,716
Cities: Lethbridge and Red Deer (offsetting amount) *					1,104,000*	1,104,000
TOTAL	$ 34,611,109	$ 64,744,512	$ 34,826,065	$ 45,669,216	$ 15,343,206	$ 195,194,108

* LETHBRIDGE $516,000 AND RED DEER $588,000 AS DISCUSSED IN THE SECTION ON SHIELDING.

SUMMARY OF TRANSFER POOL AND SHIELDING PAYMENTS

Table 7 presents the net transfer pool and shielding payment summary from the beginning of Agency operations in September 1982 to March 31, 1986. This summary is provided as an historic reflection for the interest of the reader.

TABLE 7
SUMMARY OF TRANSFER POOL AND SHIELDING PAYMENTS TO UTILITY COMPANIES INCLUDING REIMBURSEMENT AND OFFSETTING AMOUNTS TO THE CITIES FROM THE BEGINNING OF AGENCY OPERATIONS TO MARCH 31, 1986 (NET)

	Alberta Power Ltd.	Edmonton Power	TransAlta Utilities	Cities
1982 *	$ 20,046,742	$ 14,564,367	$ 0	$ 0
1983	56,562,811	12,399,191	(4,217,490)	0
1984	46,729,584	(2,753,154)	(9,150,365)	0
1985	39,269,121	10,535,042	(30,446,147)	26,311,200
1986 **	16,584,486	(1,850,877)	(7,641,927)	8,251,524
TOTAL Benefit/(Cost) Sept. 1982 - March 1986	**$ 179,192,744**	**$ 32,894,569**	**$(51,455,929)**	**$ 34,562,724**

* September to December
** January to March